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SPECIAL ANALYSIS

ARGENTINA: Viola Takes Charge 3.5(c)

When retired Army General Roberto Viola replaces President Jorge Videla on Sunday, he will face massive economic problems, conflicting pressures over civilian participation in the political process, and demands for an honorable settlement of the Beagle Channel dispute with Chile. Viola's prescriptions for solving these and other problems are likely to encounter vigorous opposition as Argentina enters its sixth year of military rule. 3.5(c)

The politically moderate Viola will share power with a three-man junta comprising the heads of the military services. Although important government decisions will be made only after consultations with and approval by the junta, Viola is a strong leader who will seek to impose his own personal views on policymaking. He will have to contend with some influential members of the military hierarchy who are opposed to his alleged populist leanings and softness in dealing with Chile, as well as his tacit support of outgoing Economics Minister Martinez de Hoz, whose policies have left a legacy of economic uncertainty. 3.5(c)

Economic Situation

The ailing economy, which has registered little growth in the last five years, will be the new government's most urgent concern. Although Martinez de Hoz has restored Argentina's international financial standing and maintained full employment, he has not been able to make Argentine businesses competitive overseas or to lower the inflation rate to an acceptable level. 3.5(c)

A wave of bankruptcies and financial jitters, moreover, have undermined business confidence and have led to a drain on foreign reserves. To reduce inflation, the peso was allowed to become progressively more overvalued during the past year in the expectation that

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cheaper imports would force Argentine producers to cut costs and lower prices. Many businesses were unable to compete, however, and they failed, as did several financial institutions that had lent too much to foundering firms. [redacted] 3.5(c)

The overvalued peso made Argentine exports overpriced for foreign buyers; exports, in turn, dropped while imports jumped. The sizable current account deficit reduced foreign exchange reserves in 1980 from $11 billion to $7 billion. [redacted] 3.5(c)

After Martinez de Hoz finally permitted a 10-percent devaluation in early February of this year, Argentines concluded that a more realistic devaluation would follow, and they rushed to convert pesos to dollars. The massive outflow since devaluation has further reduced reserves to a little over $4 billion. [redacted] 3.5(c)

Viola's economic team now must restore confidence and stimulate growth. It probably will not be much more successful than Martinez de Hoz, however, in restraining government spending--the chief cause of inflation. [redacted] 3.5(c)

Additional devaluation to stimulate export production and to restrain imports is likely, but it also would be inflationary. A new round of inflation could prompt active opposition from organized labor. [redacted] 3.5(c)

Political Liberalization

The new President's toughest political test will be in developing a framework for bringing civilians--especially the Peronists--back into the political process. The military's timetable for reversion to civilian rule remains unclear, but it appears unwilling to accept an elected civilian government before 1987. [redacted] 3.5(c)

A number of senior officers fear that a failure to resolve Argentina's economic difficulties could precipitate a premature turnover of power. They believe that the traditional political parties are incapable of governing and that the entire civilian party structure has to be revamped--a process that will take several years. [redacted] 3.5(c)

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The military is particularly wary of the Peronists, who they believe brought the country to the brink of ruin before being ousted in March 1976. Viola's cultivation of old-style party and trade union leaders also has raised suspicions in some military quarters that he will provide them a political opening. 3.5(c)

Political party activities are still suspended, but recent open criticism of government policies by the parties has become harder for the authorities to ignore. Meanwhile, Viola is placing more civilians in his cabinet and at all levels of government, and his inclusion of some Peronists and Radical Party members in lower-level government jobs will add to the unease of some of his military colleagues. 3.5(c)

The Beagle Channel Issue

There also is concern in some military and civilian circles about the Beagle Channel mediation. Pope John Paul II's proposal for solving the dispute created a major split in Argentina's ruling group because its failure to establish clearly Argentine maritime claims could give rise to future disputes. 3.5(c)

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The Argentines seem determined to draw out the talks, hoping to wear down both the Vatican and Chile, which accepts the Pope's proposal. 3.5(c)

Viola 3.3(b)(1)

3.3(b)(1) will have to fend off its most influential critics, who probably would push for a military solution if the mediation fails. 3.5(c)

Outlook

Viola's recent unofficial meetings with top US officials have given him an important boost. The view in Buenos Aires that he has substantially improved relations and opened the door to renewed US military sales to Argentina will afford him considerable short-term political capital.

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The long-term success of Viola's administration, however, will depend largely upon his ability and that of his advisers to bring Argentina out of its economic doldrums. Although they probably will continue to adhere to free market principles, some major changes in policy will be required. 3.5(c)

The new leadership has not yet agreed on specifics, but the more extreme measures that may be necessary will be hard to sell. Argentines are not accustomed to austere living. 3.5(c)

The onus of failure will fall more directly upon Viola than it did upon Videla because he will assume more responsibility for economic decisionmaking. A major improvement in the economy appears essential before any real progress can be made in Viola's cherished program of political liberalization. Until that time, Viola will have to summon all of his political skills to mollify his military opponents, who mistrust and could try to overthrow him, and civilian political leaders, who believe that military rule has nearly exhausted itself.

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